

Need for Proper Due Diligence on Proposed 1977 Saturn Street Acquisition

On October 28, 2014, the Chief Executive Officer (CEO) requested that the Board of Supervisors commence the public notification process related to a proposed \$38.45 Million acquisition of administrative office space at 1977 Saturn Street (Saturn Property) in Monterey Park. The Class C building is 34 years old and includes 205,628 square feet of potential office space.

The acquisition is intended to facilitate the relocation of the Departments of Parks and Recreation and Community and Senior Services headquarter functions, which currently occupy 115,532 square feet in the Wilshire Center/Koreatown community near Vermont and Wilshire. Both headquarters are currently in deteriorated and dilapidated facilities that have long been neglected. It is critical that suitable relocation options are pursued to help address blight in the Vermont Corridor to which County facilities are contributing. But an acquisition of this magnitude must be conducted with transparent and comprehensive due diligence to

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ensure that the Board of Supervisors (Board) is thoughtfully investing valuable tax dollars in long term County assets.

Now, two weeks following the initial proposal presented to the Board to acquire the property, several critical questions regarding the budgetary and financial implications of this deal remain unanswered. Without any disclosed analysis, the CEO has hypothesized that tenant improvements will cost between \$12 and \$15 Million. However, this estimate does not take into consideration a variety of vulnerabilities identified within the Department of Public Works' (DPW) December 2013 building assessment including the fact that many building systems are at or near the end of their life cycle. Specifically, in the report, which is now almost a year old, DPW identified that the roof likely needs to be replaced; there are only 5 years of life remaining on the air handlers; the chiller, cooling towers and hot water boiler only have 5 to 10 years of remaining life; and the existing electrical systems are in "fair" condition and merit additional testing. In addition, there was no analysis of whether the facility is in compliance with the Americans with Disabilities Act or what type of energy efficiency upgrades the building may require.

Moreover, when initially recommending acquisition of the Saturn Property, the CEO failed to complete the analysis required by the County's Facility Location Policy (Policy), which was unanimously approved by this Board on July 24, 2012. The Policy requires that when searching for property, whether for sale or lease, the CEO establish a service area for the facility, identify location alternatives, summarize the benefits and drawbacks of each

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location alternative, and submit a location recommendation for each facility to the Board for final selection. This analysis was not referenced in the CEO's October 28, 2014 Board Letter, despite reference to the Civic Art Policy, posing questions regarding the consistency in the application of and adherence to Board-approved policies.

It appears impossible for the CEO to have adhered to the Policy given the absence of a legitimate search. The last search of property completed by the CEO was performed in January 2014. However, it appeared that none of the properties identified in the report met their requirements that the property be "for sale" (versus lease) and all were determined to have "insufficient space". Thus, it is unclear what the parameters of the search were. In comparison, a preliminary search done by this Board office last week identified eight properties that were for sale and appear to meet the space requirements for the Department of Parks and Recreation and/or the Department of Community and Senior Services within a ten mile radius of the Civic Center.

Although the current real estate market is soft and considered to be a buyer's market with unprecedented vacancies in downtown and other communities in close proximity to the Civic Center, the CEO chose not to perform a transparent search for property, but rather relied upon an unsolicited offer that identified the unlisted Saturn Property. The broker who brought the Saturn Property to the attention of the CEO now stands to profit \$384,524 in commission fees from the sale. Unsolicited offers to sell real estate to the County pose unique and potentially alarming issues for County officials, and can be compared to a sole source contract. The absence of transparency and competition in this process is very

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problematic.

Furthermore, the Board, despite requests from this Board office, has not been informed of all parties to the transaction, most notably the principals of the selling entity, which has been identified as "1977 Saturn LLC". Without this knowledge, it is impossible to discern whether there are any ethical conflicts or concerns with members of the CEO's office or the Board regarding this transaction.

As a buyer, the County possesses unparalleled leverage. It can pay cash, close a deal quickly once a decision is made, and use its governmental authority to exempt itself from certain legal requirements. Consequently, extraordinary care and diligence that preserves fairness, provides equal opportunity for others who are selling or contemplating selling, particularly in a soft commercial market, and reinforces public trust must be undertaken when considering the acquisition of properties.

Given the failure to undertake the reasonable steps outlined above, millions of taxpayers' dollars could potentially be squandered on a suspect real estate deal. Additional due diligence must be completed before the Board authorizes the acquisition of the Saturn Property.

**I THEREFORE MOVE THAT THE BOARD OF SUPERVISORS:**

1. Direct the Director of the Department of Public Works to report back in writing to the Board of Supervisors (Board) with the estimated costs for upgrading the roof, air handlers, chiller and cooling towers, hot water boilers, electrical system, and complying with the Americans with Disabilities Act and Title 24 requirements, so that

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a comprehensive inventory of associated costs for occupying the building can be known and evaluated by the Board.

2. Direct the Chief Executive Officer (CEO) to disclose all parties to the 1977 Saturn Street transaction including the principals, brokers and County employees involved.
3. Direct the CEO to complete a comprehensive analysis consistent with the Board-approved Facility Location Policy that includes a detailed analysis of all properties it evaluated prior to completing an acquisition for the Saturn Property and report back to the Board in writing; and
4. Direct the CEO to return to the Board for approval to consummate the acquisition of 1977 Saturn Street only after the aforementioned due diligence has been completed and reported as directed.

**I FURTHER MOVE THAT THE BOARD OF SUPERVISORS:**

5. Direct the CEO to include a Facility Location Policy analysis in all future Board Letters whereby the request to initiate real property purchase or lease is being requested; and
6. Direct County Counsel to establish a policy for Board consideration within 60 days regarding the acceptance of unsolicited real property that ensures transparency, fairness to other property owners and real estate brokers who have unlisted properties and addresses potential conflicts and other ethical improprieties.

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